ENT-10 INCREASE MEDICARE'S DEDUCTIBLE FOR PHYSICIAN SERVICES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	720	1,130	1,340	1,535	1,695	6,420
Outlays	620	1,070	1,280	1,480	1,630	6,080

Appreciable federal savings in Medicare's Supplementary Medical Insurance (SMI) program could be realized by increasing the deductible--that is, the amount that enrollees must pay for services each year before the government shares responsibility. The deductible is now $75 a year. This deductible has been increased only twice since Medicare began in 1966, when it was set at $50. Hence, the deductible has fallen relative to average per capita benefits from 70 percent in 1967 to less than 10 percent for 1986. Increasing the SMI deductible to $200 on January 1, 1987, and indexing it thereafter to the rate of growth in the Consumer Price Index would save $620 million in fiscal year 1987 and $6.1 billion over the five-year period from 1987 through 1991.

Such an increase would spread the burden of reduced federal outlays among most enrollees, raising their out-of-pocket costs by no more than $125 each in 1987. Since a larger proportion of enrollees would not exceed the deductible (currently about 30 percent do not), it would both increase the number of enrollees with strong incentives for prudent consumption of medical care and reduce administrative costs to process claims.

On the other hand, even relatively small increases in out-of-pocket costs could prove burdensome to low-income enrollees who do not receive Medicaid, which pays deductible amounts for dual Medicaid-Medicare beneficiaries. That added expense might, in turn, discourage some people from seeking needed care.

In its 1987 budget, the Administration proposed to increase the SMI deductible to $100 for 1987, with increases in subsequent years based on increases in the Medicare Economic Index. This would save considerably less than the proposal discussed here.

ENT-11 LIMIT PAYMENTS FOR LONG-TERM CARE SERVICES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	750	870	990	1,100	1,250	4,960
Outlays	750	870	990	1,100	1,250	4,960

In recent years, growth in Medicaid spending for long-term care, including nursing home care and home health agency services, has outpaced growth in total Medicaid program outlays. Nursing home costs now comprise about 45 percent of Medicaid outlays. One way to contain increases in federal costs would be to restrict Medicaid's open-ended matching of funds for long-term care services. If increases in federal Medicaid payments for long-term care were limited to the inflation rate for medical care services, federal savings over the next five years would total almost $5 billion.

States would have to match the federal grant based on current Medicaid matching rates, and in the first year each state's allotment would be frozen at the 1986 amount. After 1987, federal grants would reflect adjustments relative to state population and other factors, such as the probable use of services in an area, the number of poor elderly and disabled people in the state, and a per capita payment for each type of service adjusted for the local costs of providing long-term care services. States would be allowed to determine their own provider and reimbursement policies under general federal guidelines.

Advocates of such a plan believe that it would encourage states to serve their long-term care patients more cost-effectively. Given more flexibility in the use of funds, states would probably substitute lower-cost home and community-based services for more costly institutional care, particularly for many mentally ill or mentally retarded patients. Furthermore, proponents say such a plan would force decisions to be made at the local level where services could be planned better and tailored to local conditions.

Opponents of this approach for long-term care fear that too much responsibility and financial burden would be shifted to the states. They believe that if federal funding is decreased, some needed services would not be provided because some states would not provide supplemental funding.

To provide adequate amounts and quality of care, states might increase local taxes or perhaps reduce some benefits to the "less-poor" beneficiaries. Others suggest that some states would respond to the plan by increasing the use of hospital services that would still be partially funded by the federal government under the current arrangements.

As an alternative, a comprehensive grant could be formed by combining all federal long-term care services into a single program. Although Medicare nursing home and home health services would not be included under this option, the new grant would replace funding for long-term care under the Social Services Block Grant (SSBG), Title III of the Older Americans Act, and Medicaid. This approach, however, would require estimating the amounts of SSBG and Title III funds used in this way. States would allocate resources from a single agency and would delegate to local agencies or contractors the necessary screening of and health care planning for patients.

Proponents of comprehensive grants believe this plan would reduce significantly the amount of fragmentation in current services that often produces gaps and overlaps in funding and could lower administrative costs. Critics suggest, however, that such a plan would lead to a reduction in services for the near-poor populations and might lead to a greater reliance on state-only funding than would result from capping Medicaid's payments for long-term care.

The Administration's budget would place a cap on all federal Medicaid spending for both acute care and long-term care in 1987 through 1991. In doing so, the proposal would include a special contingency fund of $300 million for states that might have unusual cost increases.

ENT-12 RESTRICT COST-OF-LIVING ADJUSTMENTS IN NON-MEANS-TESTED BENEFIT PROGRAMS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Eliminate COLAs for One Year						
Social Security/ Railroad Retirement	5,250	7,200	7,300	7,250	7,100	34,100
Other Non-Means-Tested Programs	1,350	1,850	1,900	1,950	2,000	9,050
Offsets in Means-Tested Programs	-880	-1,300	-1,350	-1,450	-1,500	-6,500
Total	5,700	7,750	7,800	7,800	7,600	36,700
Limit COLAs to Two-Thirds of CPI Increase for Five Years						
Social Security/ Railroad Retirement	1,700	4,750	8,250	11,900	15,550	42,150
Other Non-Means-Tested Programs	440	1,200	2,100	3,050	4,000	10,800
Offsets in Means-Tested Programs	-50	-200	-380	-560	-800	-2,000
Total	2,100	5,800	9,950	14,400	18,750	51,000
Limit COLAs to CPI Increase Minus Two Percentage Points for Five Years						
Social Security/ Railroad Retirement	3,100	7,450	12,050	16,850	21,850	61,300
Other Non-Means-Tested Programs	800	1,900	3,100	4,350	5,650	15,750
Offsets in Means-Tested Programs	-90	-320	-570	-820	-1,150	-2,950
Total	3,800	9,050	14,550	20,400	26,350	74,100
Pay Full COLA on Benefits Below a Certain Level and 50% of COLA on Amounts Exceeding That Level						
Social Security/ Railroad Retirement	590	1,650	2,800	3,950	5,150	14,150

Social Security and other non-means-tested cash transfer programs whose benefits are indexed to the Consumer Price Index (CPI) are expected to total $256 billion this year and to rise to $349 billion by 1991 under current policies. Reducing the automatic cost-of-living adjustment (COLA) for these programs is commonly proposed as an effective way to slow the growth in entitlement spending. Four strategies for reducing COLAs and the savings resulting from each are shown in the table. 1/ Other options for achieving savings in Social Security are given in ENT-13 through ENT-17.

Advocates of COLA restrictions view them as a means of generating considerable savings while affecting most of the beneficiary population, in contrast to other budget options that would affect only relatively small groups of recipients. By limiting these options to the non-means-tested cash benefit programs, many of the poorest beneficiaries of entitlements--for example, recipients of Supplemental Security Income--would be protected from losses of income. Significant reductions in outlays would persist beyond the five-year projection period because the benefit levels of those eligible when the COLA limitation was implemented would be permanently lowered, although the savings would eventually disappear as beneficiaries died or ceased receiving payments for other reasons.

Opponents counter that budget reduction strategies that institute less than complete price indexing would result in financial difficulties for many recipients, particularly if they were applied for an extended period. Although the exclusion of means-tested benefit programs would limit the impact of COLA reductions for many low-income beneficiaries, many others would face substantial declines in their standards of living. COLA reductions also encounter opposition from those who fear that changes made to reduce budget deficits would undermine the entire structure of retirement income policy. They argue that these programs should be altered only gradually and then only for programmatic reasons, because Social Security and other retirement programs represent long-term commitments both to current retirees and to today's workers. Thus, any changes in benefits should be announced well in advance to allow people to adjust their long-run plans.

If COLA limitations were adopted to restrict the growth in benefits for people after they retire, commensurate changes could be made in

1. The programs whose COLAs would be reduced under the first three options are: Social Security Old-Age, Survivors, and Disability Insurance (OASDI), Railroad Retirement, Civil Service Retirement, Military Retirement, Federal Employees Workers' Compensation, Veterans' Compensation, and retirement benefits for the Foreign Service, the Public Health Service, and the Coast Guard. The fourth option would affect only Social Security and Railroad Retirement Tier I COLAs.

determining initial benefits for new recipients to avoid introducing disparities in benefit levels among different groups of retirees. This situation is particularly relevant for Social Security, where benefits for those becoming eligible are based on an indexed benefit formula and on indexed earnings histories. For example, if prices rose by 4 percent in a year and the wage index used to compute benefits for newly eligible recipients increased by 5 percent, eliminating that year's COLA without any change in the calculation of initial benefits would result in benefits for new beneficiaries that were about 5 percent higher than for recent retirees; under current law, benefits would be only about 1 percent higher for the new retirees. To mitigate this problem and to achieve additional savings, efforts to slow the growth in benefits through COLA limitations might be extended to the formulas determining initial benefits (see ENT-13 and ENT-14).

Several COLA options are examined below. The magnitude of the savings in each case--except the option to limit COLAs to two percentage points less than the CPI--is very sensitive to the assumed level of inflation in the years in which the COLAs would be reduced.

Eliminate COLAs for One Year. One option would be to eliminate COLAs in fiscal year 1987 for non-means-tested benefit programs, while allowing them to be paid in subsequent years but with no provision for making up the lost adjustment. If this approach were taken, federal outlays would be reduced by about $5.7 billion in 1987 and $36.7 billion over five years, with Social Security and Railroad Retirement accounting for most of the total. These estimated reductions would be larger or smaller if prices were to rise faster or slower than the 3.4 percent increase currently assumed for the fiscal year 1987 COLA.

Limit COLAs to Two-Thirds of CPI Increase. Under this option, recipients would be compensated for only a certain proportion of inflation, such as two-thirds of the annual CPI increase. Under current CBO economic assumptions, applying this restriction for five years would save about $2.1 billion next year and $51.0 billion over the 1987-1991 period. As a result, benefits for people who received payments throughout the five-year period would be about 7 percent less in 1991 than they would have been under full price-indexing. Both cumulative savings and reductions in real income would be greater in an environment of higher inflation and smaller under low inflation.

Index Benefits by the CPI Increase Minus Two Percentage Points. An approach similar to the proportionate COLA reduction would be to reduce the adjustment by a fixed number of percentage points--for example, the CPI increase less two points. In this case, both savings and effects on beneficiaries would be roughly the same regardless of the level of inflation--about \$74.1 billion over the next five years, if extended for the full period. (This option would reduce real incomes by about the same percentage every year, regardless of the inflation rate, whereas the two-thirds-of-COLA approach would reduce the purchasing power of benefits most sharply when inflation is high during the five-year period.)

Pay the Full COLA on the Portion of Benefits Below a Certain Level and 50 Percent of the COLA on Benefits Exceeding That Level. To ensure that lower-income beneficiaries would not be adversely affected by COLA reductions, some analysts have suggested tying the reduction to beneficiaries' incomes or payment levels. The example discussed here--based only on Social Security and Railroad Retirement Tier I benefits--would award the full COLA for benefits based on the first \$400 of the retirees' Primary Insurance Amount (PIA) and 50 percent of the COLA on benefits above this level; the \$400 threshold would also be indexed by the full COLA. This approach would save about \$0.6 billion in 1987 and \$14.1 billion over the 1987-1991 period. (Another option would be to provide the full COLA only to recipients whose benefits are based on a PIA below a certain level. Thus, the COLA reduction would affect the entire benefit of recipients above the threshold, not just the portion above that level.)

Several concerns, however, are raised regarding this approach. First, benefit levels are not always good indicators of total income. Some families with high benefits have very little other income, while some with low benefits have substantial income from other sources. On the other hand, targeting the COLA restraint on the basis of total income would be administratively complex. Indeed, implementation of the PIA-based option itself would involve considerable effort and would require a longer lead-time than the other COLA options because the Social Security Administration would need to rewrite many computer programs. (The budget savings estimates shown above nonetheless are based on implementation in time for the January 1987 COLA.) Second, if this proposal were extended to include other benefit programs, the different benefit structure in each program might require separate determinations of the appropriate benefit levels for paying the reduced COLA. Third, many people object to any changes in retirement programs that might be construed as introducing a means test for benefits, even if the "test" is limited only to the COLA.

The Administration's budget includes elimination of the January 1987 COLA for federal retirees, as well as other changes in the federal retirement system. No changes are proposed, however, in Social Security benefit rules.

ENT-13 LIMIT THE INCREASE IN THE SOCIAL SECURITY "BEND POINTS"

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Outlays	10	70	175	350	600	1,205

The Social Security benefit formula could be altered to reduce initial benefits for workers who become eligible in the future, thereby slowing the growth in outlays. Benefits of retired and disabled workers are based on a history of their earnings covered by Social Security, which is expressed as an average over most of their working lifetimes known as the Average Indexed Monthly Earnings (AIME). For people becoming eligible in 1986, the basic benefit or Primary Insurance Amount (PIA) is computed under the following formula: 90 percent of the first $297 of the worker's AIME, plus 32 percent of the next $1,493 of AIME, plus 15 percent of the AIME in excess of $1,790. Under current law, the formula's "bend points"--$297 and $1,790--are changed each year to reflect changes in average earnings in the economy.

If the rate of increase in the bend points were reduced by two percentage points annually in the 1987-1991 period, more earnings would fall into the brackets with lower replacement rates, causing benefits to grow more slowly. This approach would save about $1.2 billion from Social Security outlays over the 1987-1991 period, and more in later years. (Another way of limiting the increase in the bend points would be to index the annual changes to prices rather than wages. The effects of doing so would depend on the relative behavior of prices and wages.) Because the number of beneficiaries affected would grow, the savings that would result from reducing initial benefits--whether by changing the bend points or by the options described in ENT-14 or ENT-15--would be much larger in later years.

Under this option, the replacement rate--the ratio of benefits to preretirement earnings--for a 62-year-old retiree who has always earned the average wage would be about 33 percent in 1991 as compared with about 34 percent under current law. While the replacement rate under the option would still be higher than the rate for early retirees who first collected benefits in the late 1960s or early 1970s, it would be three percentage points lower than the 1979 peak in the replacement rates received by retirees aged 62 that year.

This option would increase Social Security trust fund reserves and reduce the government's borrowing requirements by gradually decreasing the proportion of preretirement earnings replaced by Social Security benefits. Proponents of this option point out that because of increased private pensions, tax-favored accounts, and real wage growth, new beneficiaries would probably have less need for benefits than would those currently receiving benefits. Moreover, under all but the most pessimistic economic assumptions, real benefits of successive retirement cohorts would continue to rise under this option, albeit at a slower rate than under current law. Coordinating this option with some of the cost-of-living adjustment options described in ENT-12 would ensure that the benefits of both current and future beneficiaries would be reduced to a similar extent.

If changes were made in the indexing of bend points, however, the effects on recipients of different benefit levels would vary. People with AIMEs at or slightly above the current law bend points would incur the largest losses in percentage terms, while those with slightly lower benefits would have smaller ones. Critics of the option also point out that replacement rates would continue to decrease for as long as the indexing was reduced. Further, even after full indexing was resumed, the incomes of affected beneficiaries would be permanently reduced. Finally, opponents argue that future benefits need not be reduced now. With the passage of the Social Security Amendments of 1983, the combined assets of the retirement and disability trust funds are expected to be sufficient to pay benefits for at least the next half century. Moreover, under current law, future cohorts of retirees will receive total benefits that are roughly equivalent to the amounts they will have paid in payroll taxes.

The Administration's budget does not contain any proposals for modifying the Social Security benefit structure.

ENT-14 REDUCE THE REPLACEMENT RATE WITHIN EACH BRACKET OF THE SOCIAL SECURITY BENEFIT FORMULA

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Outlays	65	260	480	750	1,100	2,655

Under current law, the basic Social Security benefit is determined by a progressive formula that provides workers with 90 percent of their Average Indexed Monthly Earnings (AIME) up to the first earnings bracket (called a bend point), plus 32 percent of the AIME up to the second bend point, plus 15 percent of the AIME above the second bend point. Another method of reducing initial Social Security benefits would be to lower the three replacement rates by a uniform percentage. For example, lowering the three rates in the benefit formula from 90, 32, and 15 to about 87.0, 30.9, and 14.5, respectively, would achieve a uniform 3.3 percent reduction in the benefits of newly eligible workers--similar to the reduction in benefits that currently eligible workers would incur by forgoing the projected January 1987 COLA. This method would save about $2.7 billion from Social Security outlays over the 1987-1991 period and more in later years.

Under this option, replacement rates for all newly eligible workers would be 3.3 percent lower starting in 1987 than they would be under current law. Thus, a 62-year-old retiree who has always earned the average wage would receive initial benefits in 1987 of about 33 percent of pre-retirement earnings, compared with 34 percent if no change is made. As with limiting the increase in bend points (ENT-13), this option would substantially reduce future Social Security outlays. It could also be coordinated with a cost-of-living adjustment option to ensure that benefits for both current and future beneficiaries would be reduced to a similar extent. Moreover, unlike the previous option, the percentage reductions in Social Security benefits would be the same for recipients at all benefit levels.

Opponents of cuts in initial benefits contend that it is not necessary to make any permanent reductions beyond those made by the Social Security Amendments of 1983, because the combined assets of the retirement and disability trust funds are expected to be sufficient to pay benefits for at least the next half century. One of the changes made by the 1983 amendments was to increase the age--from 65 to 67--at which unreduced Social Security retirement benefits are first available. The change is to be phased in between the years 2000 and 2022. As a consequence, initial benefits for most workers retiring after the turn of the century are likely to decrease anyway, relative to what they would have received had the full retirement age not been increased. For example, in 2022, a worker who retires at age 62 will receive 70 percent of the Primary Insurance Amount rather than 80 percent; thus, if the worker's replacement rate at age 62 would have been 34 percent, it would instead be about 30 percent under the new rules governing early retirement.

The Administration's budget does not contain any proposals for modifying the Social Security benefit structure.

ENT-15 LENGTHEN THE SOCIAL SECURITY BENEFIT COMPUTATION PERIOD BY THREE YEARS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Outlays	25	100	300	500	700	1,625

Social Security retirement benefits are based on the Average Indexed Monthly Earnings (AIME) of workers in employment covered by the system. At present, the number of years that must be included in the benefit computation formula is determined in part by the year in which the retiree reaches age 62. For example, 30 years are included for those reaching age 62 in 1986; the number is scheduled to increase to a maximum of 35 years for individuals reaching age 62 in 1991 and beyond. Lengthening the averaging period would generally lower benefits, particularly for early retirees, by requiring more low-earnings years to be factored into the benefit computation. One option would gradually add three years to the AIME computation period, basing it on the year the retiree reaches age 65. This proposal, if applied to people turning 62 beginning in January 1987 (but only fully effective after three years), would save $1.6 billion over the next five years and more in later years.

Proponents who favor a longer computation period argue that the number of years included in the calculation of AIME should be based on the age of eligibility for full benefits, not for reduced early-retirement benefits. Doing so would lower Social Security outlays and would reduce incentives for early retirement. Finally, lengthening the averaging period would reduce the advantage that workers with fluctuating earnings have over those with histories of relatively stable earnings.

Because many beneficiaries elect early retirement for such reasons as poor health or unemployment, opponents of this proposal argue that a longer computation period would reduce benefits for those recipients who are least able to continue working. Other workers who would be disproportionately affected include those with significant uncovered periods: for example, parents, usually women, who stopped or interrupted their careers to rear children, and workers who experienced long periods of unemployment or employment not covered by Social Security.

The Administration's budget does not contain any proposals for modifying the Social Security benefit structure.

ENT-16 ELIMINATE SOCIAL SECURITY BENEFITS FOR CHILDREN OF RETIREES AGED 62-64

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Outlays	40	180	350	590	650	1,810

Under current law, unmarried children of retired workers are eligible for Social Security dependents' benefits as long as they are under age 18, or attend elementary or secondary schools and are under age 19, or become disabled before age 22. These benefits help families with children maintain an adequate standard of living after the worker's retirement. A child's benefit is equal to one-half of the parent's basic benefit, subject to a dollar limit on the maximum amount receivable by any one family. If such benefits were eliminated for the children of retirees aged 62 through 64, beginning with retirees reaching age 62 in October 1986, the savings would total about $1.8 billion over the next five years.

This option might encourage some retirees to stay in the labor force longer. At present, though benefits for retired workers and their spouses are actuarially reduced if retirement occurs before age 65, children's benefits are not. Further, the younger the workers are, the more likely they are to have children under age 18. Thus, workers under age 65 now have an incentive to retire while their children are still eligible for benefits. This incentive would be quite small, however, for families in which spouses are also entitled to dependents' benefits, since the maximum family benefit limits the increase in total benefits attributable to eligible children for these households.

On the other hand, for families with workers whose retirement was not voluntary--because of poor health or unemployment, for example--the loss in family income might cause some hardship. Moreover, since spouses under age 62 receive benefits only if their children under age 16 also receive benefits, eliminating children's benefits for families of early retirees would also result in the loss of spouses' entire benefits in some families. In such cases, the total loss of income could be significant.

The Administration's budget does not contain any proposals for modifying the Social Security benefit structure.

ENT-17 COVER ALL NEWLY HIRED STATE AND LOCAL GOVERNMENT WORKERS UNDER SOCIAL SECURITY AND MEDICARE

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year
	1987	1988	1989	1990	1991	Addition
Addition to CBO Baseline	0.2	1.0	1.7	2.6	3.5	9.1

With the enactment of the Social Security Amendments of 1983, the only major group of the work force who will not eventually be completely covered under Social Security is employees of state and local governments. About 30 percent of such workers are not now covered. If all state and local government workers hired after December 31, 1986, were brought under the Social Security system, federal revenues would increase by about $0.2 billion in 1987 and by about $9.1 billion during the 1987-1991 period. (Approximately four-fifths of these amounts would go into the Old-Age, Survivors, and Disability Insurance trust funds, and the rest would go into Medicare's Hospital Insurance fund.) This option would also result in higher outlays in the future, eventually offsetting a portion of these added revenues, but the increase would be negligible over the next five years.

Many public employee benefit programs have more stringent vesting requirements for such protection than does Social Security, especially for young workers. As a result, Social Security coverage for new state and local government workers would, after only a few years, improve the protection many of these workers and their families would receive in the event of the worker's disability or death. Moreover, since Social Security coverage is portable, workers who change jobs and would lose eligibility for benefits under the state and local plans might find Social Security coverage particularly advantageous. In addition, since the current benefit formula causes some redistribution of benefits from high-wage workers to low-wage workers, it may be inappropriate to allow some groups of workers not to participate.

On the other hand, the transition could be difficult for some of the state and local governments not now participating in the Social Security system, in that they would be providing different retirement packages for new and old employees. Moreover, some critics question the adequacy of funding for current state and local pension plans should new employees no longer be required to contribute to them, and they express particular concern about the fiscal impact this option would have on jurisdictions that operate their pension plans on a pay-as-you-go basis.

The Administration's budget would require states and localities to remit Social Security payments at the same frequency as private employers, but would not change the legislation concerning coverage of their workers.

ENT-18 ELIMINATE VETERANS' COMPENSATION PAYMENTS FOR THOSE WITH LOW-RATED DISABILITIES

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
Budget Authority	2,150	2,250	2,350	2,400	2,500	11,650
Outlays	2,000	2,250	2,300	2,400	2,500	11,450

Veterans' disability compensation provides cash benefits to about 2.2 million veterans with service-connected disabilities. Compensation is based on a rating of their impairments and an average reduction in ability to earn wages in civilian occupations. Additional allowances are paid to certain recipients who have dependents. Eliminating all benefits for those with disability ratings below 30 percent, and ending only the dependents' allowances for those with ratings of 30 percent or 40 percent, would reduce federal outlays by about $11.5 billion between 1987 and 1991. Almost 1.3 million veterans would lose all their cash benefits--currently between $68 and $126 per month--but they would retain their eligibility for medical care and other associated benefits. For another 327,000 veterans whose disability rating is 30 percent or 40 percent and who have dependents, benefits would be reduced by an average of about $35 per month.

Advocates believe this option would target benefits toward the most impaired and perhaps the medically neediest of the disabled veterans and their families. It would bring compensation for disabled veterans more in line with workers' compensation programs, which generally provide only temporary cash or medical benefits for low-rated impairments. Moreover, the associated cash payments were originally set in the 1940s when civilian jobs depended more on physical labor than today. Because of the availability of and improvements in reconstructive and rehabilitative medicine, proponents question whether veterans with impairments rated below 30 percent suffer any reductions in their earnings as a result of their low-rated disabilities. Many of these veterans are compensated for low-rated impairments such as mild arthritis, moderately flat feet, or one partially amputated finger, which may not affect their ability to work. Similarly, some proponents argue that the rising participation of women in the labor force means that dependents' allowances for veterans with disability ratings of 30 percent or 40 percent are probably not necessary in most cases to maintain adequate family incomes.

Opponents, however, view these benefits as indemnity payments owed to veterans disabled to any degree while serving in the armed forces. Furthermore, some beneficiaries have retired from work and rely on pension incomes, so that even a small reduction in payments could have a greater impact on them than on younger veterans.

An alternative option would be to reduce or eliminate benefits to veterans with low-rated disabilities who have already received their benefits for more than a certain number of years. For example, eliminating compensation payments after two years for those veterans with disabilities rated below 30 percent would result in large program savings over the next five years.

The Administration's budget would not change the eligibility criteria for veterans' compensation.

ENT-19 REQUIRE A TWO-WEEK WAITING PERIOD FOR UNEMPLOYMENT INSURANCE BENEFITS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	--	--	--	--	--	--
Outlays	--	930	970	980	1,020	3,900

NOTE: These estimates assume that the change is not implemented until fiscal year 1988, to allow time for changes in state Unemployment Insurance laws.

Current federal law imposes no mandatory waiting period before jobless workers can receive their initial Unemployment Insurance (UI) benefit payment. The Omnibus Reconciliation Act of 1980 did, however, require states to adopt a one-week waiting period on regular UI benefit payments or lose some federal benefits under the extended UI program. Forty-three states now require a one-week waiting period for regular UI benefits; the remaining states have no waiting requirement.

If all jobless workers were required to wait two weeks before receiving UI benefits, program outlays would be reduced and beneficiaries in all states would be treated uniformly. Such a change would not affect the maximum length of time during which workers could collect benefits--for example, a person otherwise eligible for 26 weeks of benefits would retain that eligibility but would receive payments during weeks 3 through 28 of joblessness. Benefits would be reduced, however, for those recipients not using the maximum number of covered weeks. If implemented in 1988 (to allow time for states to change their UI laws), this option would cut total UI outlays by $3.9 billion between then and 1991. 1/

This option could significantly reduce the work disincentive of UI by increasing the initial cost of being unemployed, yet it would not greatly affect the program's ability to help the long-term unemployed. This restriction of aid might also lower the number of workers who apply for assistance, in addition to reducing the duration of benefits paid to many who do apply.

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1. See CBO, *Promoting Employment and Maintaining Incomes with Unemployment Insurance* (March 1985), p. 48.

On the other hand, critics point out that because this change would reduce the benefits provided to jobless workers who do not use all of their entitlement, it would diminish the income support role of UI. In addition, opponents maintain that covered workers are entitled to benefits when they become unemployed, and that this change would erode the insurance protection of unemployment insurance even for those who eventually exhaust their entitlement. Finally, some people oppose this change because it would impose additional federal restrictions on state UI programs, even though it is state UI taxes that finance regular UI benefits.

The Administration's budget would not change the waiting period for Unemployment Insurance benefits.